

STATEMENT FOR THE RECORD

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The degree of mobilization among political leaders in developing countries to face the Y2K problem has increased substantially over the past 9 months. Given the delay they have experienced in acting, however, we may assume that their impact will be in some cases moderate at best. While we do not expect, at this point, that Y2K will cause apocalyptic failures, the consensus is strong that there will be isolated cases of disruptions with serious consequences. In light of the fact that Y2K preparations have been most hindered in developing countries, we fear that these 'isolated' cases will likely be experienced by the world's most poor. The World Bank, the UN and others have worked to support Y2K remediation among its constituent Governments, and considerable success has been realized in raising the awareness of government leaders and preparing for remedial measures. However, we acknowledge that the current status is in some cases inadequate to avoid failures, and in all countries the focus must now turn to contingency planning and crisis response. The United States Government can support this effort through technical assistance and financial assistance programs focusing on contingency planning in critical sectors.

The World Bank and Y2K

The World Bank, in cooperation with a handful of donor countries such as the Australia, Canada, France, Italy, The Netherlands, Sweden, Switzerland, the United Kingdom, the U.S., and other multilateral development banks, UN agencies and international private sector organizations, has undertaken an effort to raise awareness of Y2K, and to provide technical assistance and funds to help developing countries address it.

The Bank's Y2K outreach initiative is open to all donors as part of the Information for Development Program (*infoDev*) program, an internationally funded program, launched in 1995, to help developing countries mobilize information and communications technologies to promote their economic and social development.

The following actions merit special mention:

- The infoDev Y2K initiative financed by over US\$35 million in donor trust funds has delivered Y2K seminars to 1,500 government ministers and information technology managers from 120 countries. It has approved 109 grants and is considering 20 more grants for Y2K planning and repair work. In addition, it is funding and fielding approximately 35 teams to provide technical assistance with contingency planning in targeted sectors, now and immediately after the return of the millennium.

- The International Year 2000 Cooperation Center has operated with financial support from the World Bank, and institutional support from the United Nations to coordinate Y2K preparations in all world regions. It has inaugurated sector-specific coordinators, and has established a comparative self-assessment mechanism with participation from 72 countries. In addition, infoDev is funding a series of regional and global conferences focusing on continuity planning organized by the Center. Fellowships are being provided for the attendance of representatives from national Y2K programs of developing countries.
- The World Bank Group President, James D. Wolfensohn, has taken the lead on the Y2K problem and written to all heads of state or governments from industrialized countries, calling for their help to address the problem. He has also written to government leaders in developing countries, urging them to make contingency plans for dealing with potential Y2K related problems. He informed them that the World Bank Group stands ready to help its client countries in their assessment and repairs efforts, either with funds from on-going operations, special technical assistance loans, or special grants (via *infoDev*).
- The World Bank Group is advising governments to ensure that Y2K problems do not undermine activities connected with the Bank's loans to developing countries, ranging from support for power generation to pension reform. As of January 1999, about one third of the World Bank's portfolio of 1698 projects were considered to be at high risk of Y2K disruptions. Since that time, remediation work and assistance from the World Bank has helped to lower the percentage of the portfolio at high risk to approximately 17%.
- The Bank has approved loans of \$29 million to Sri Lanka, \$30 million to Argentina, and \$100 million to Malaysia to support specific Y2K preparations. Additional operations in Senegal, Cote d'Ivoire and Cameroon are underway, and approximately \$80 million from the existing portfolio has been reallocated to address Y2K problems.
- The International Finance Corporation -- the private sector arm of the World Bank Group -- has also been surveying the 970 companies in which it holds investment to assess their Y2K readiness and offers outreach services to its clients.

Y2K preparedness in developing countries

The World Bank has witnessed an increase in the attention paid to Y2K remediation in developing countries, although it is more difficult to determine the amount of effort being actually applied. We are in contact with national Y2K coordinators in about 70% of our client countries. In these countries where we have established contacts, we found a high level of awareness to the Y2K problem. Most of these coordinators are implementing national plans, another indication of institutional will.

Judging by the dialogues we maintain with these countries' Y2K coordinators over World Bank cooperation, we also know that in many of these countries the national coordinators possess a fairly high degree of sophistication. Whereas one year ago requests for assistance were often ill-conceived, and usually directed at preliminary activities, the World Bank today receives many requests for technical assistance targeted at specific, technical problems associated with remediation and contingency planning. World Bank analysts have conducted several detailed appraisal missions. In many cases, they returned from their missions with a high degree of confidence in the ability of the local administration and private sector to navigate through the date change with minimal disruption. While keeping in mind that there are countries which have responded to World Bank assistance efforts slowly, poorly, or not at all, observers of Y2K remediation should be aware that given their resources and institutional frameworks, many developing countries have managed to prepare themselves well for the coming date change.

The World Bank has not engaged in a comprehensive evaluation of country readiness, therefore comparative analysis based on our experience remains anecdotal. Many other sources of quantitative, comparative data do exist, however. Notably, there is a self-assessment mechanism coordinated by the IY2KCC and private sector estimates are also available. The IY2KCC resource (www.iy2kcc.org/CountryWeb.htm) includes data for 72 countries. While this information is subjective, it is among the most comprehensive available. Private sector assessments are more objective, however we caution that, in our experience in certain countries, these assessments may be inaccurate. We have advised our client governments to address these discrepancies by communicating directly with the evaluating firms; similarly, we advise users of this information to corroborate the assessments through direct contact with the foreign organizations under scrutiny.

Risks posed to developed nations

The threats posed by interdependence applies equally to developing-country organizations – relying on inputs from other developing countries – and to their trading partners in developing countries who rely on the supply of raw materials, manufactured goods and off-shore labor. These risks are well-documented elsewhere¹. In addition to market risks and fiscal risks, developed country governments should be cognizant of the possibility that the Y2K problem might trigger social instability, a backlash against technology, donors, and the opening of markets, or cause a strain on diplomatic relations.

¹ See in particular “The Texture of Impact” by Bruce McConnell, Director of IY2KCC, for a description of the likely impact scenario (<http://www.iy2kcc.org/Y2KImpact.htm>), and “Anticipating Y2K,” *Global Commodity Markets*, the World Bank, July 1999, for a description of the impact of Y2K on international commodities trade (<http://www.worldbank.org/html/extpb/comq/commodit.htm>).

The progress described above should not be interpreted as an invitation to complacency. We have learned that the Y2K problem is too global, too complex, and too systemic to be totally solved on time. In spite of our all efforts, it is impossible to guarantee that there will be no disruptions due to the Y2K problem. We need to continue with renewed vigor our work on remediation and testing, while developing in parallel comprehensive contingency plans and be prepared for rapid action when and where the disruptions occur. There remains, therefore, the interest and the opportunity for international community to provide critical eleventh-hour assistance.

The donor community must continue to pursue efforts at coordination such as those undertaken by the International Year 2000 Cooperation Center. The pay-off in mitigating developmental impacts of the Y2K bug and in averting major negative externalities from disruptions abroad can be substantial. The World Bank will continue to support these efforts through coordination, technical assistance facilities, and ongoing supervision of our existing financial assistance programs. Several developed country governments have made contributions to this effort, including the United States, and most have bilateral assistance programs as well. By persisting in these efforts the risk of major Y2K disruption, with equally serious impact to the world's rich and poor alike, may be mitigated.